



# China: what you need to worry about

February 2017



What not to worry about:

*The renminbi and capital outflows*



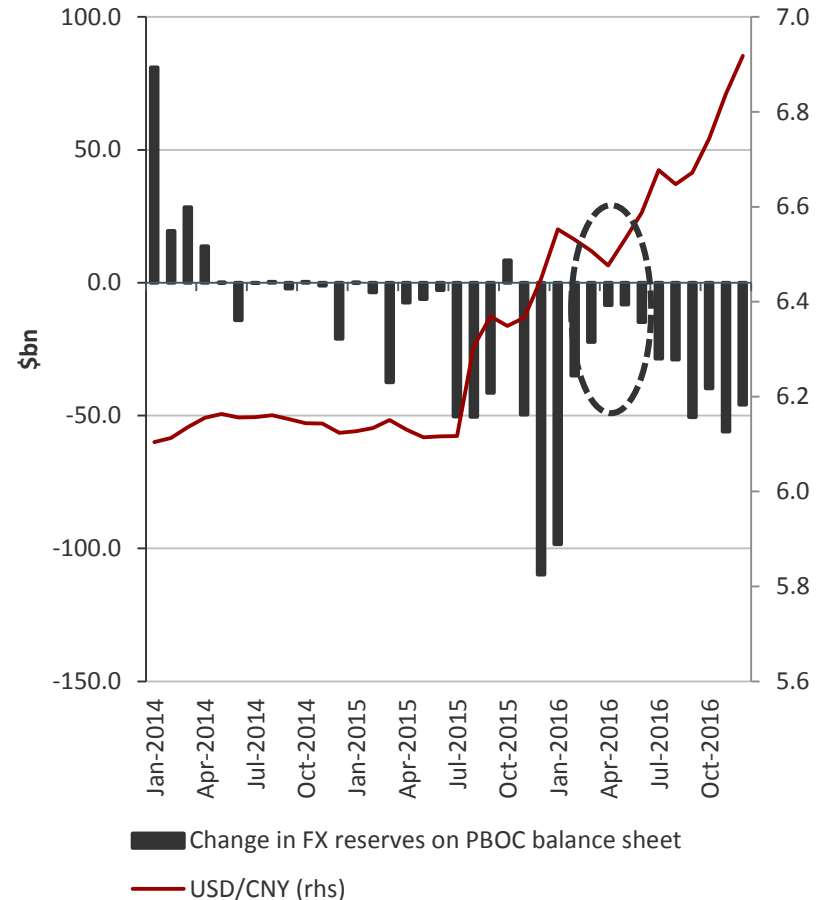
# Weaker renminbi is function of dollar strength

## CFETS basket: renminbi vs trade-weighted basket of currencies



Source: Wind, NSBO China

## FX reserves vs dollar/renminbi rate

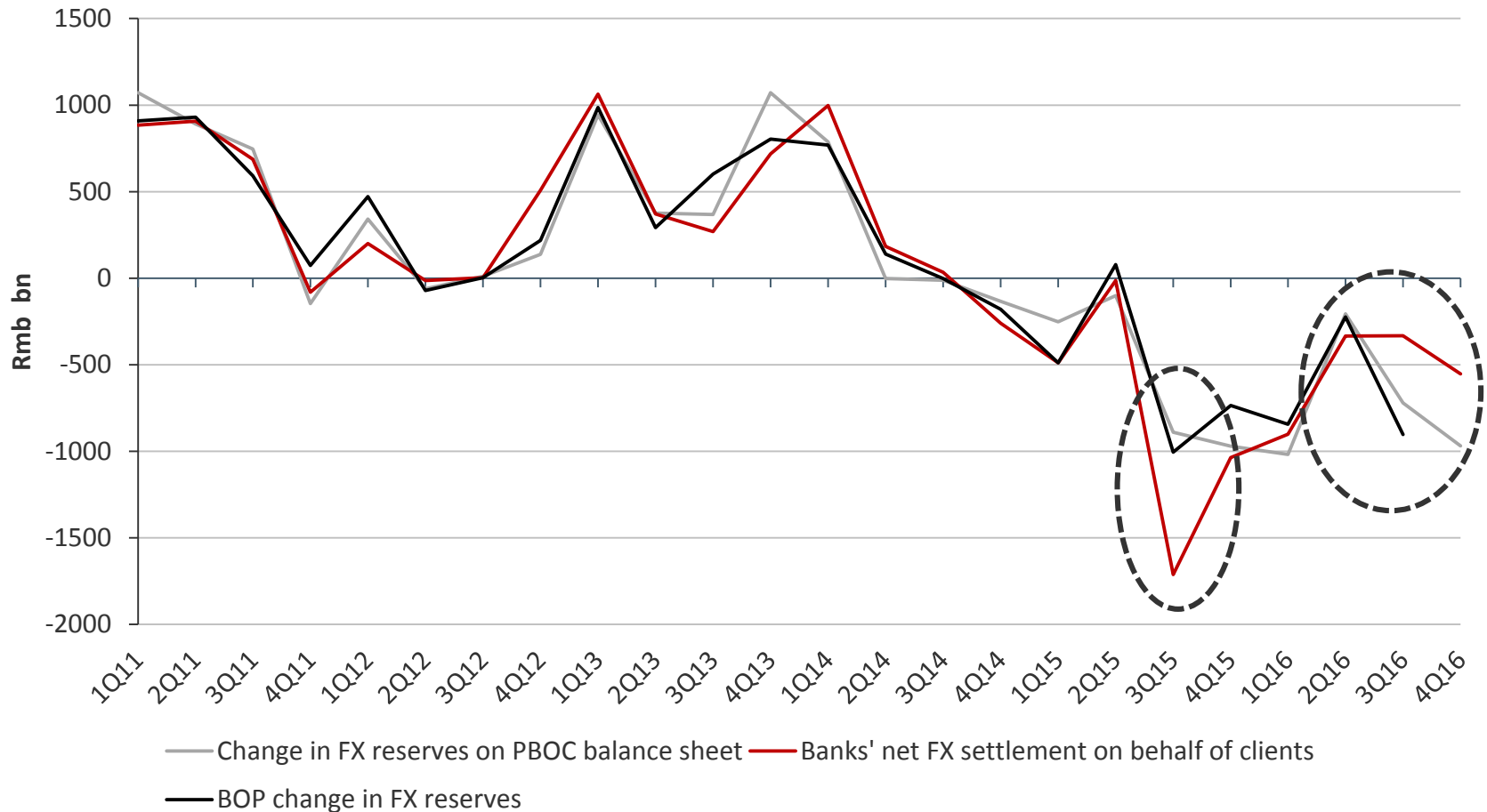


Source: Wind, SAFE, NSBO China



# FX reserves are falling at a slower pace than they appear to be

## Alternative measures of change in China's FX reserves

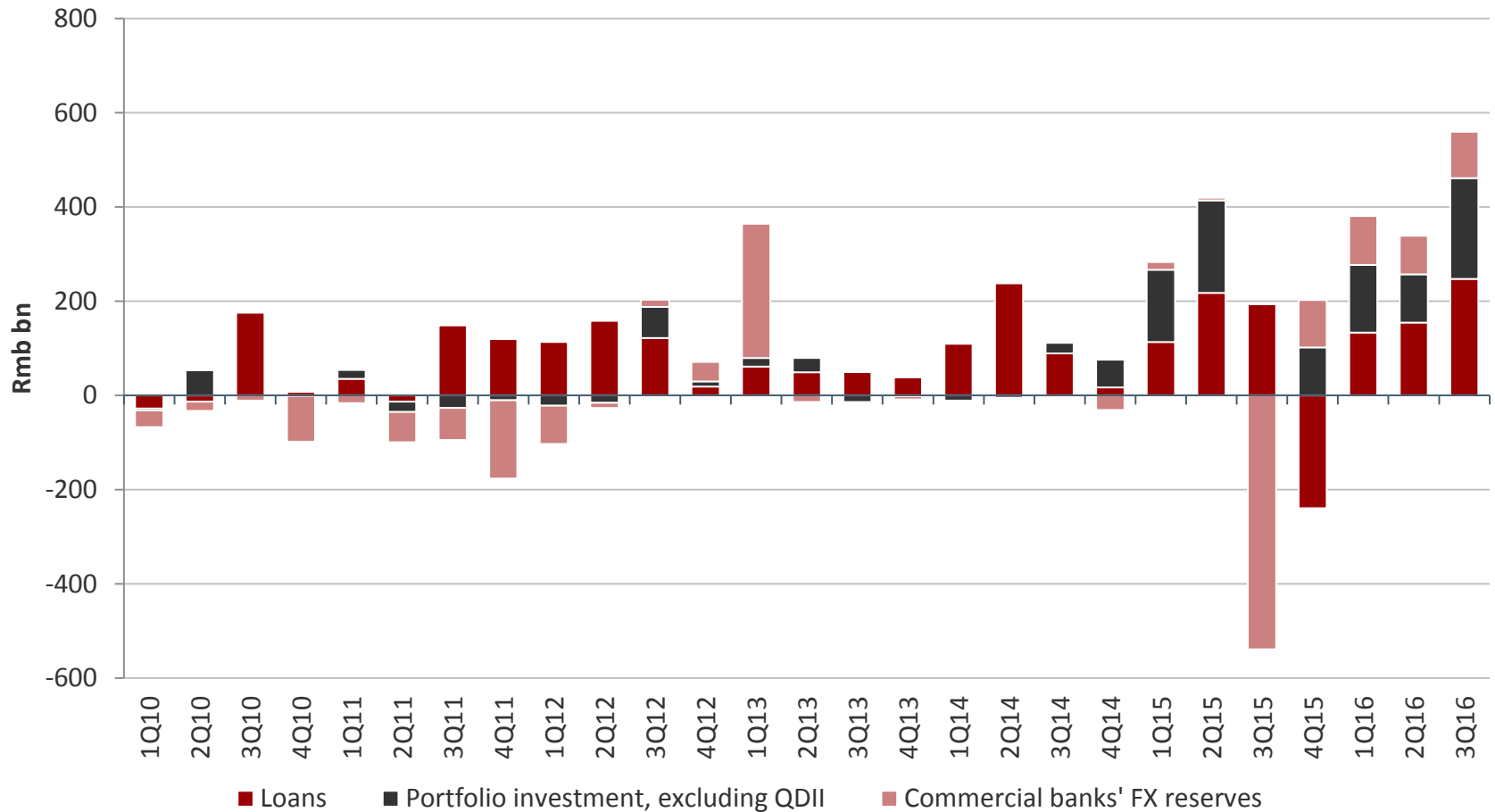


Source: PBOC, SAFE, NSBO China



# Part of recent reserves drawdown has been due to state build-up of foreign assets

## Change in state claims on foreign assets, excluding PBOC foreign reserves

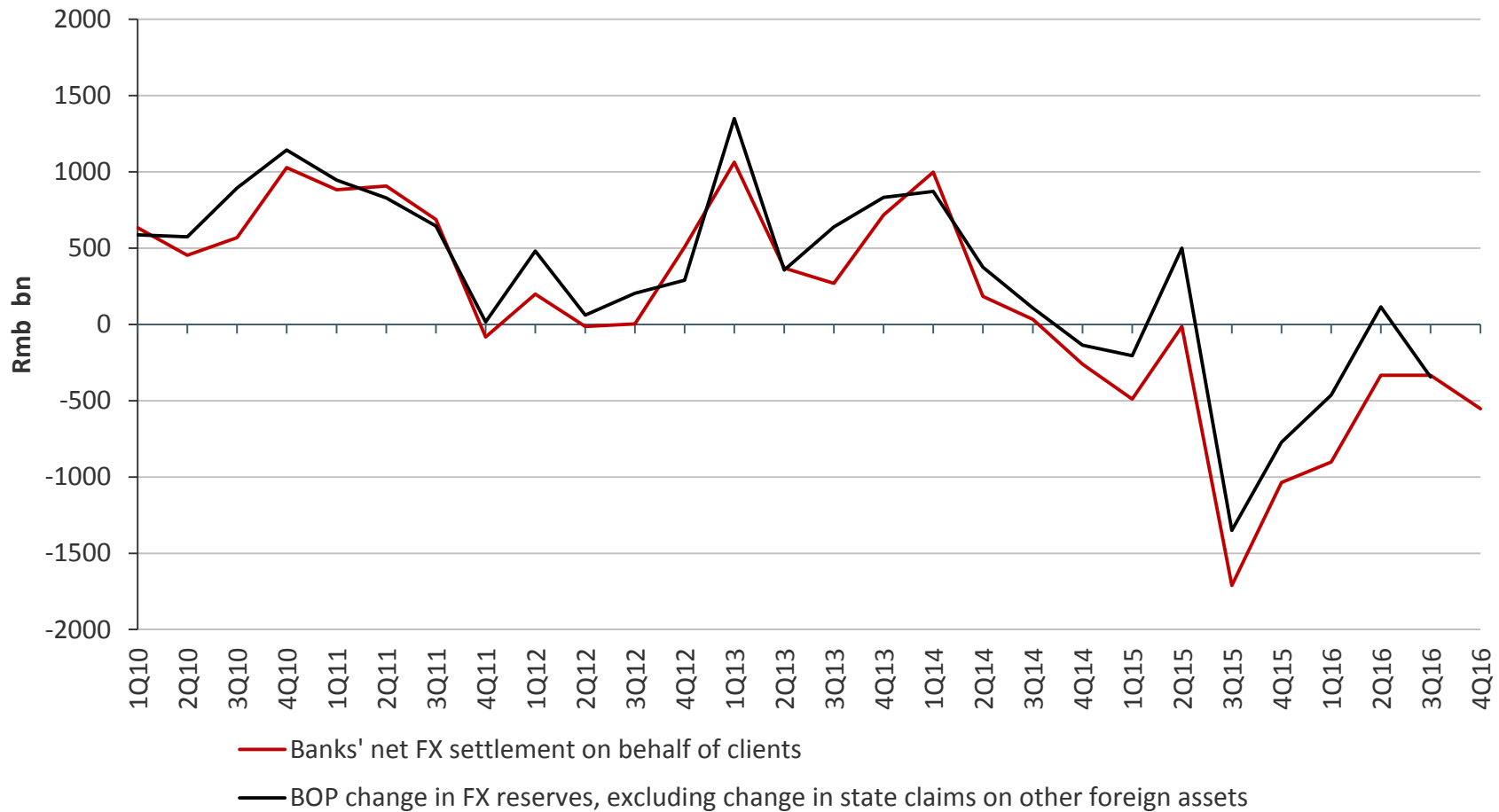


Source: SAFE, NSBO China



# Non-state claims on foreign assets have risen by less

## Adjusted alternative measures of change in China's FX reserves

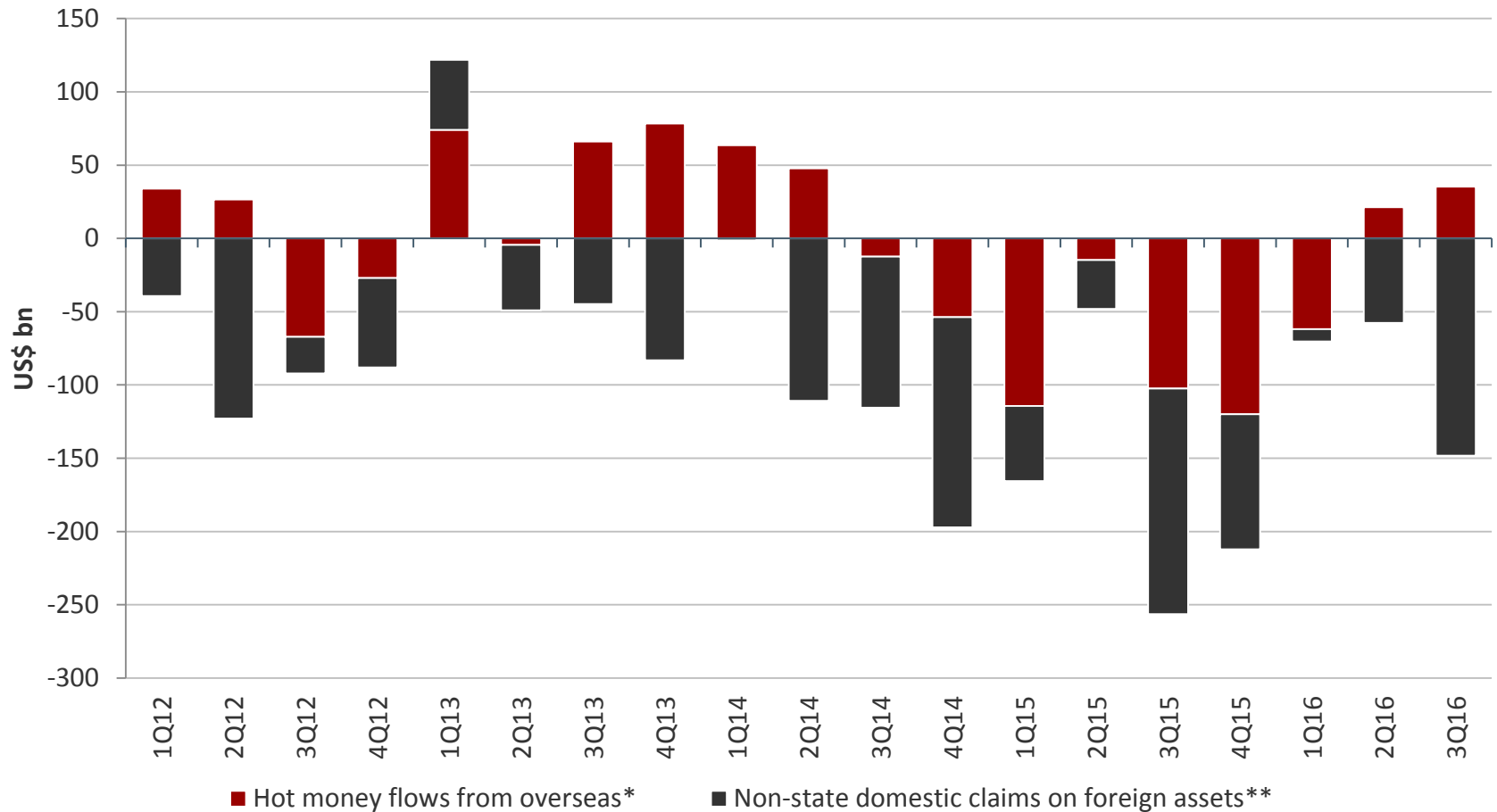


Source: PBOC, SAFE, NSBO China



# Non-state capital outflows are now mainly via domestic entities

## Capital outflows via non-state channels



Source: SAFE, NSBO China

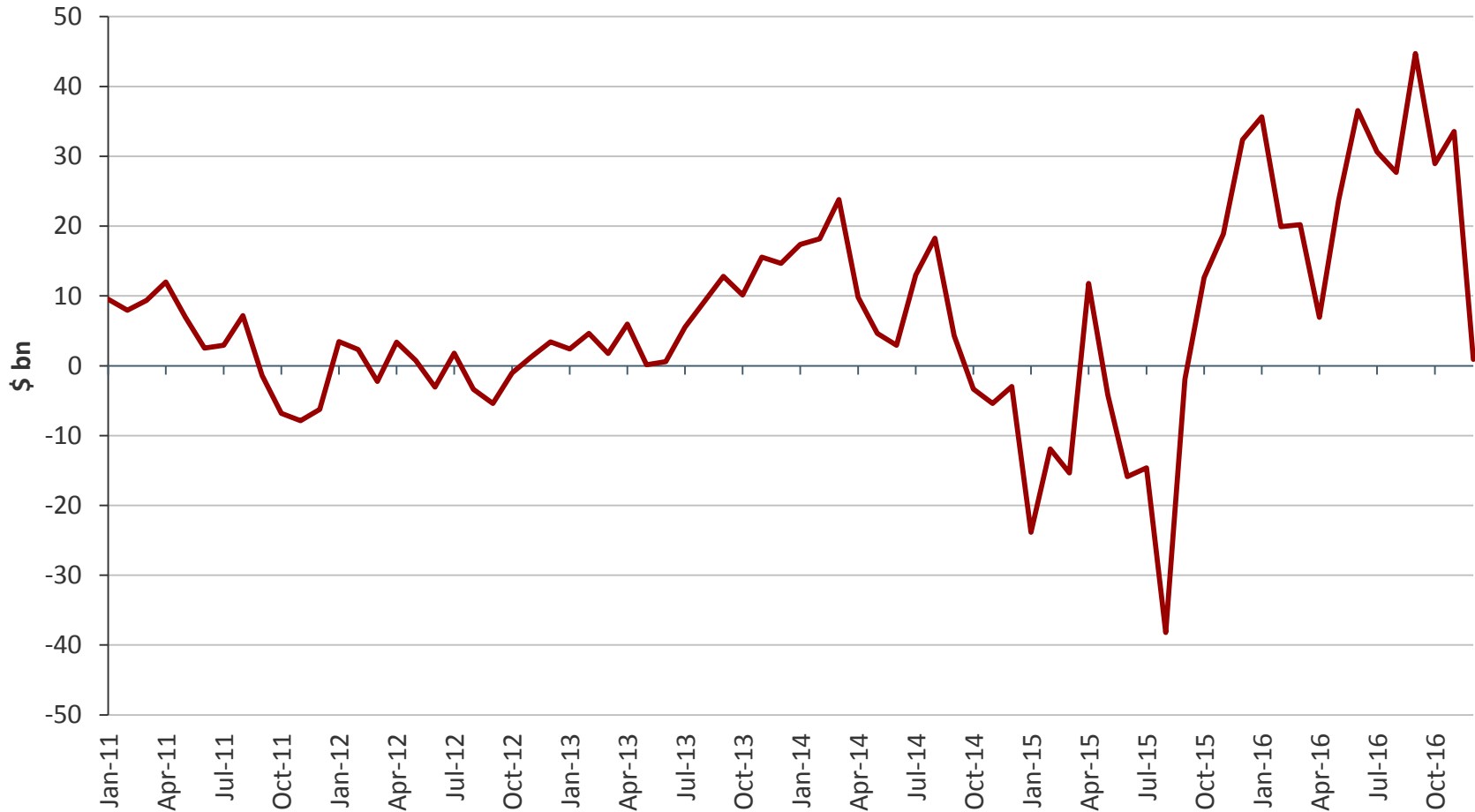
\*net change in Chinese foreign debt and foreigners' deposits at onshore banks

\*\*net errors and omissions, foreign deposits, overseas insurance and pensions, trade credit and QDII investment



# Recent capital control measures have been successful

## Net cross-border renminbi transactions



Source: SAFE, NSBO China





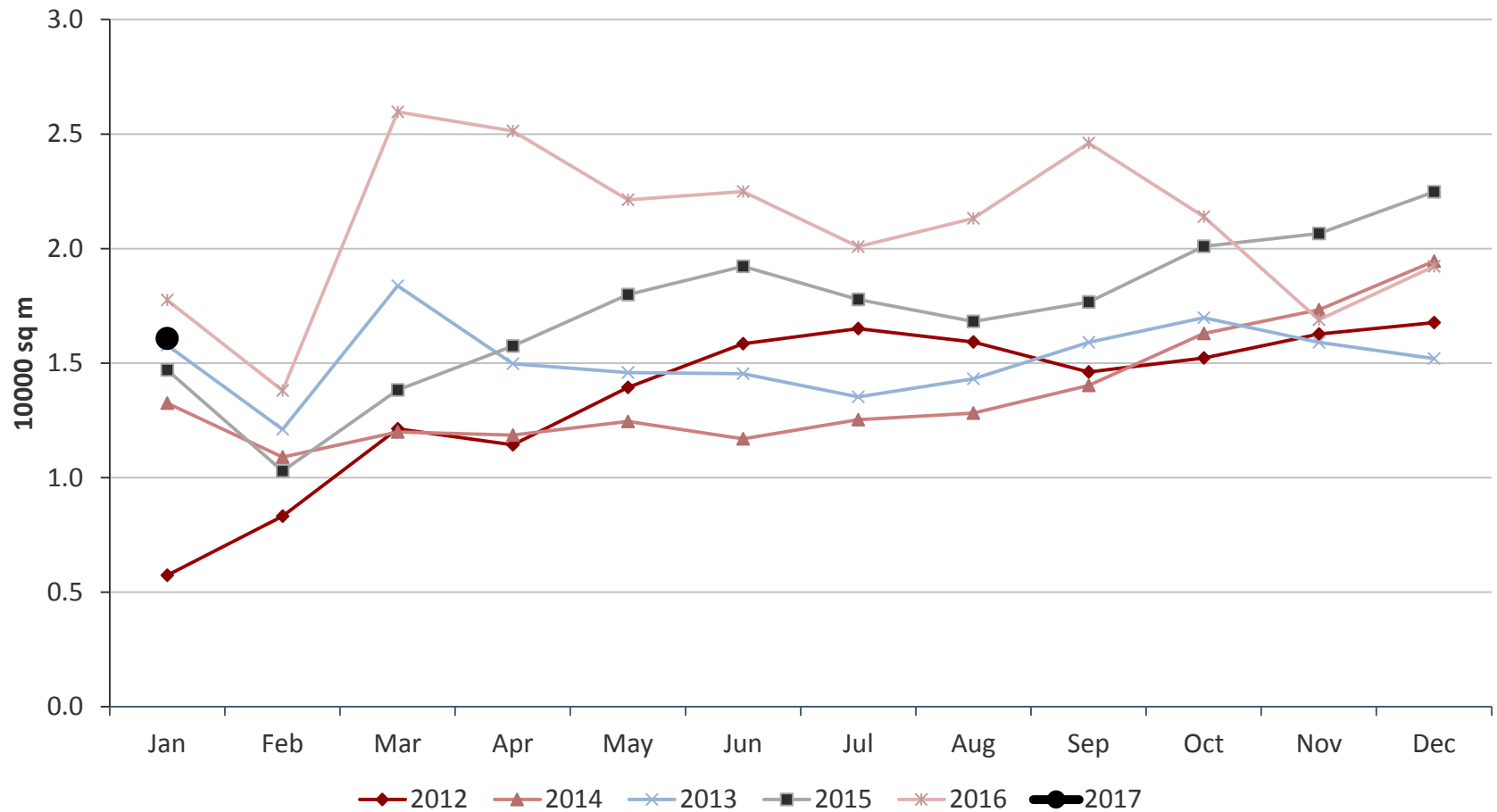
What to worry about:

*China has already shifted from stimulus to tightening*



# Home sales are falling on the back of policy tightening

## Average daily home sales in 52 cities

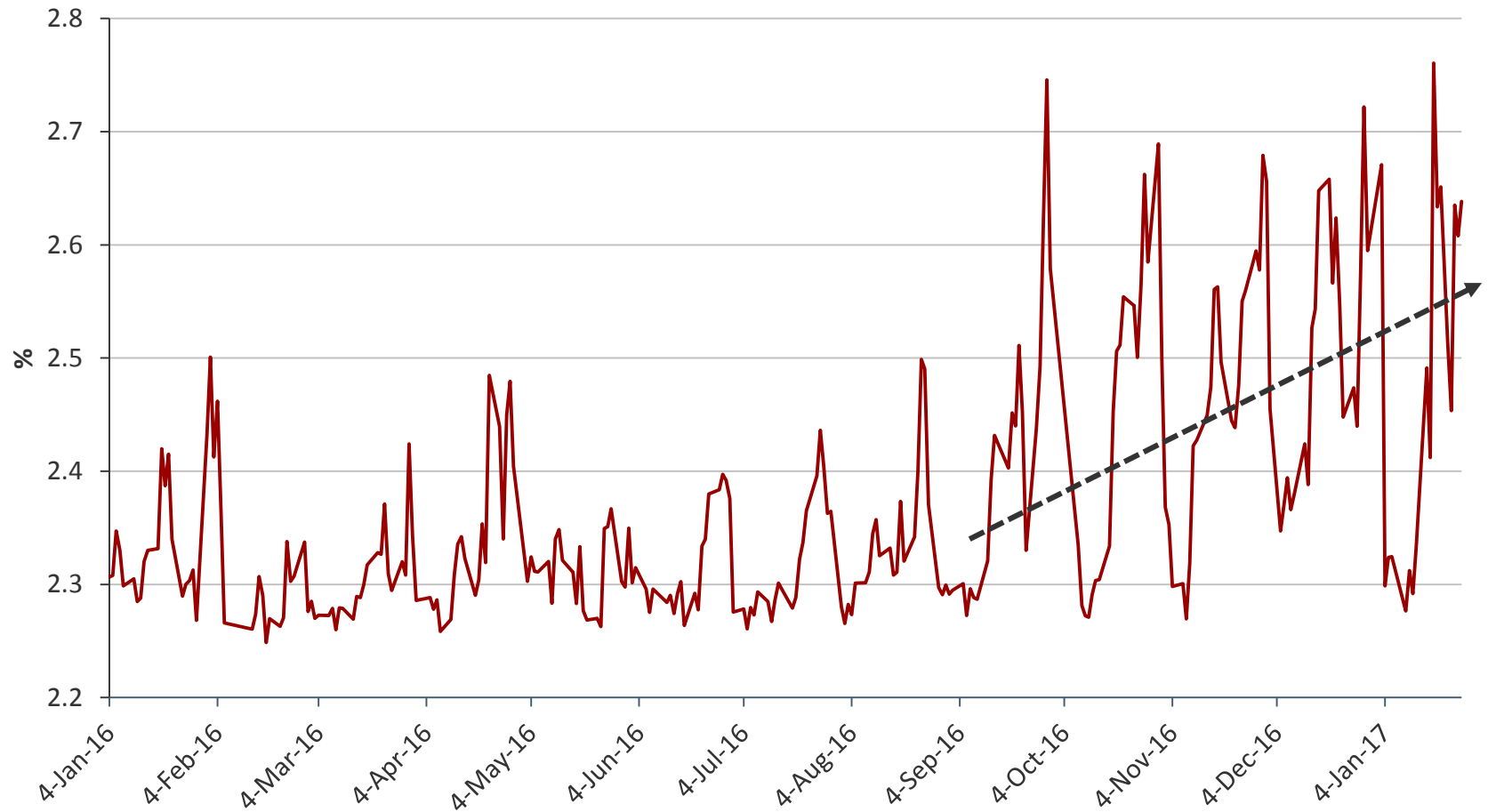


Source: Wind, CEIC, NSBO China



# Monetary policy is being tightened

## 7 day interbank repo rate (weighted average)

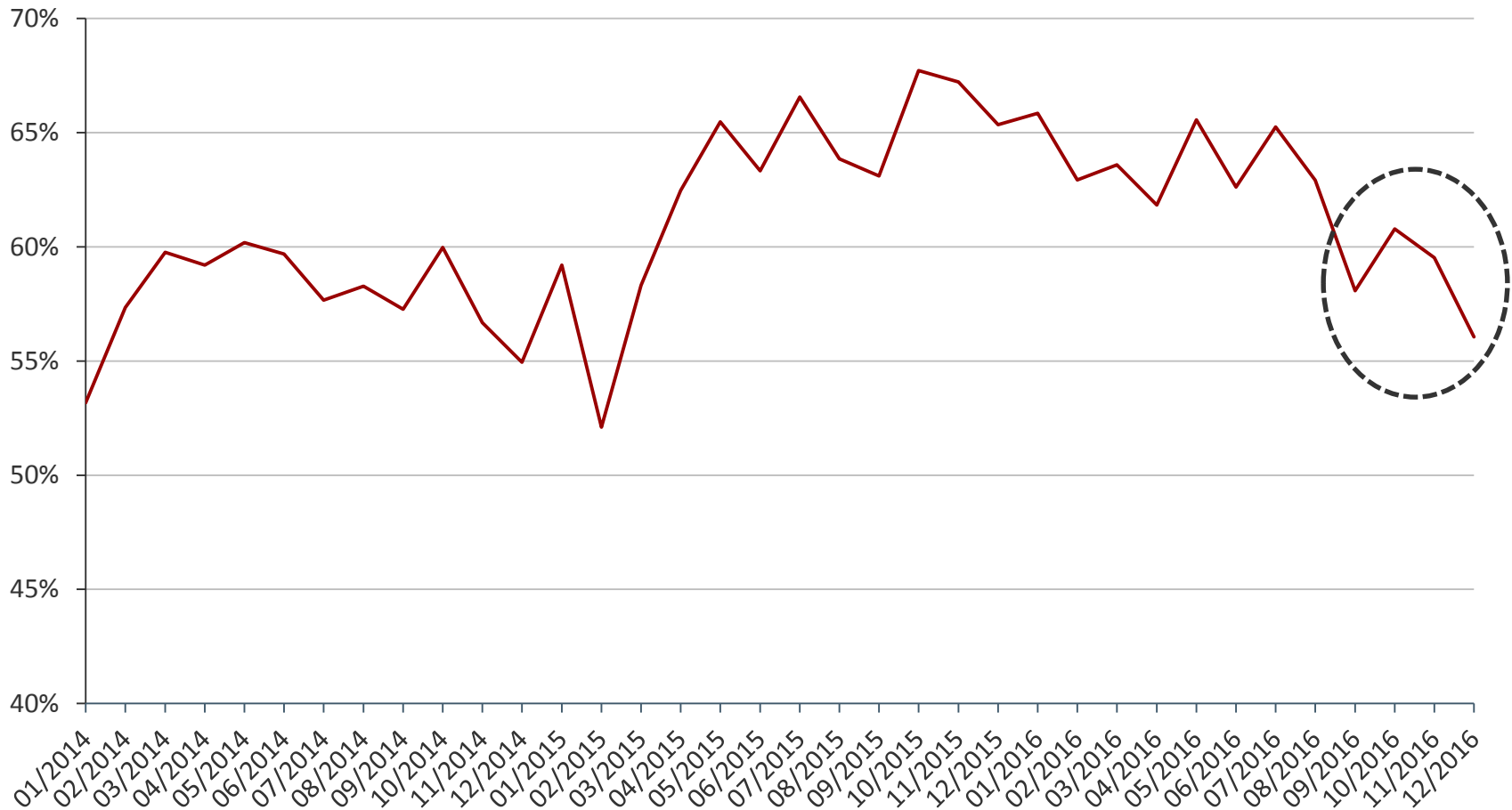


Source: Wind, NSBO China



# PBOC tightening initially focused on the interbank market...

## Overnight repos as proportion of total interbank market turnover

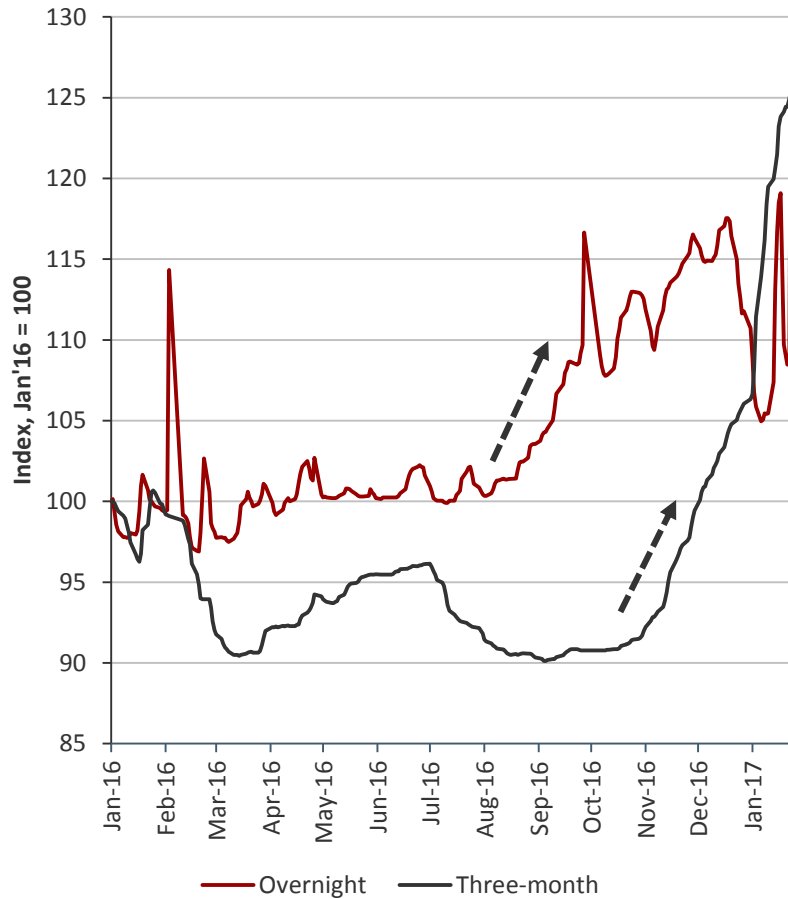


Source: Wind, NSBO China



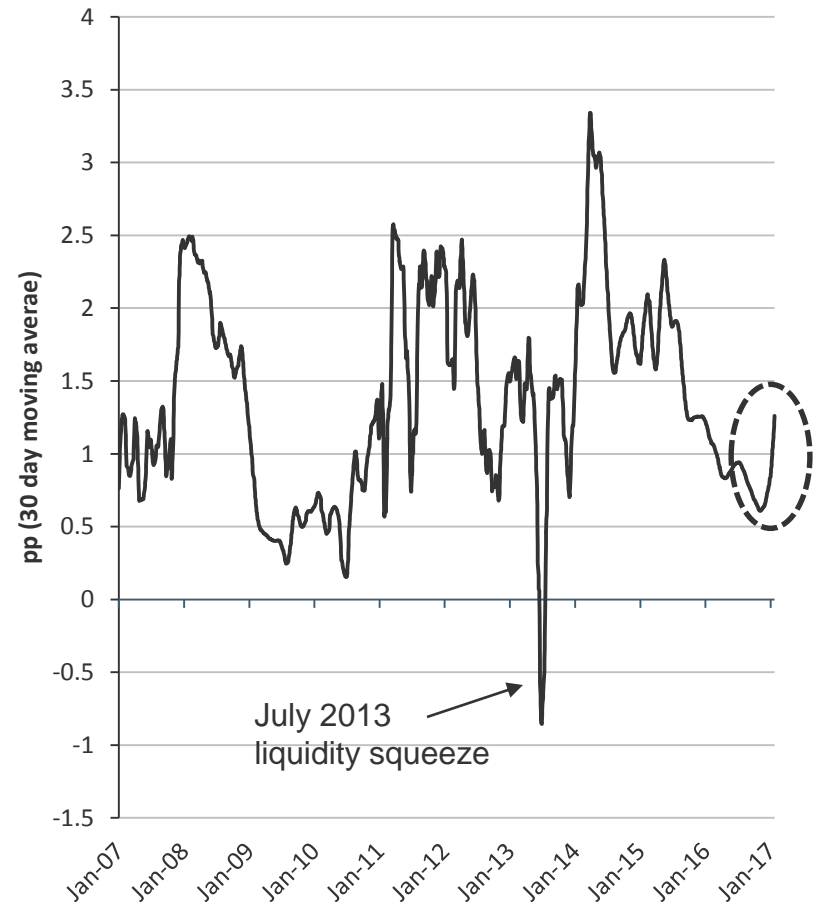
...but is now shifting to the real economy

### Overnight vs three-month SHIBOR



Source: Wind, NSBO China

### Spread between three-month and overnight SHIBOR

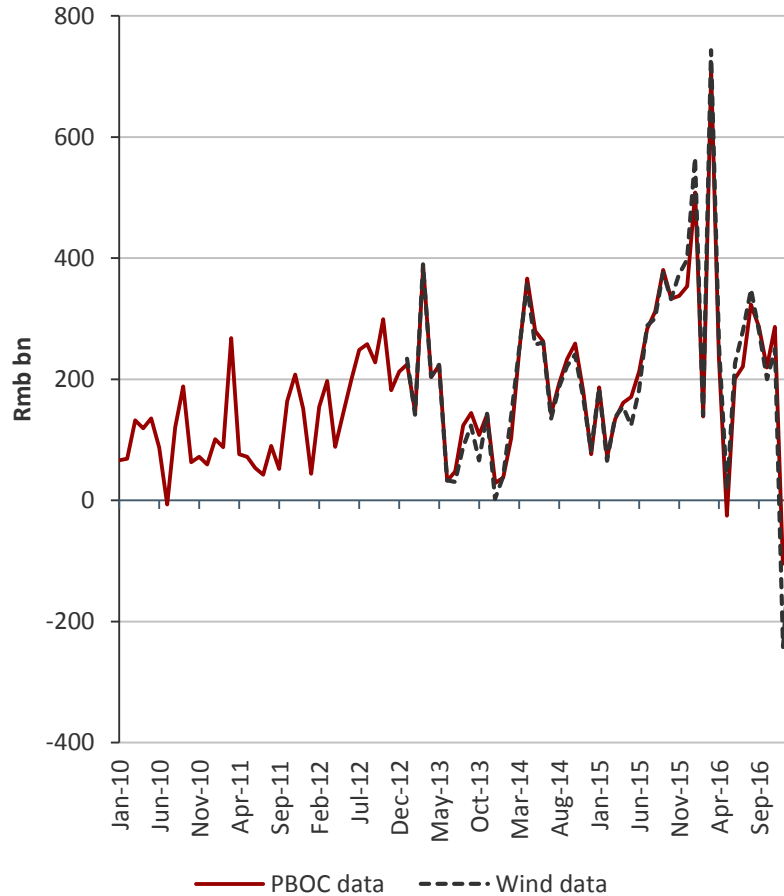


Source: Wind, NSBO China



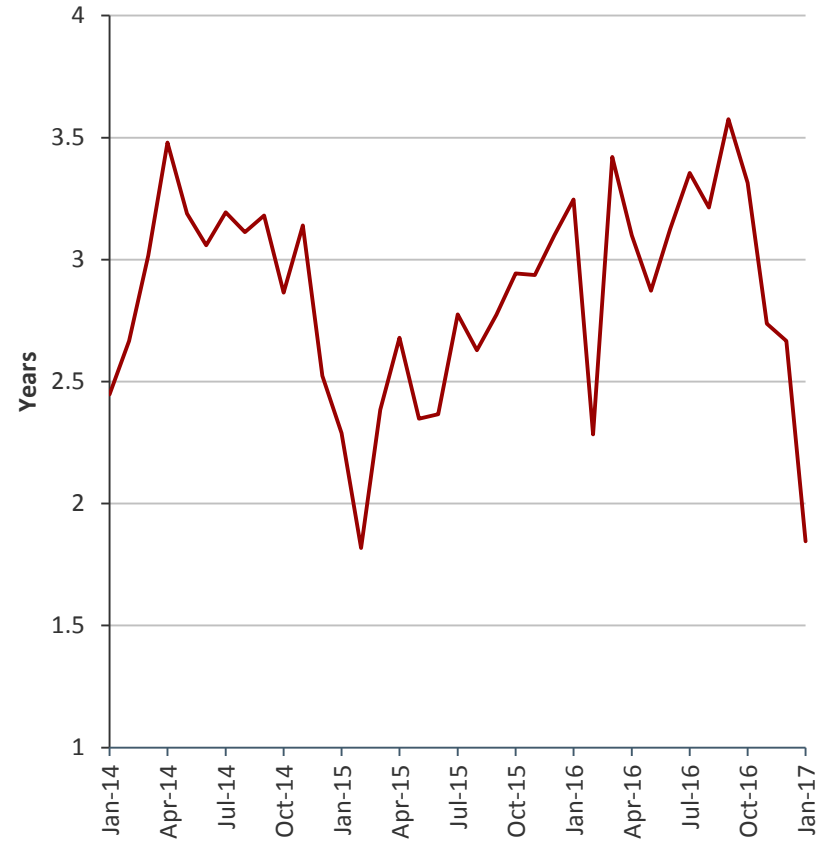
# Corporate bond issuance is collapsing...

## Net new bond issuance by non-financial corporates



Source: PBOC, Wind, NSBO China

## Weighted average maturity of newly issued bonds

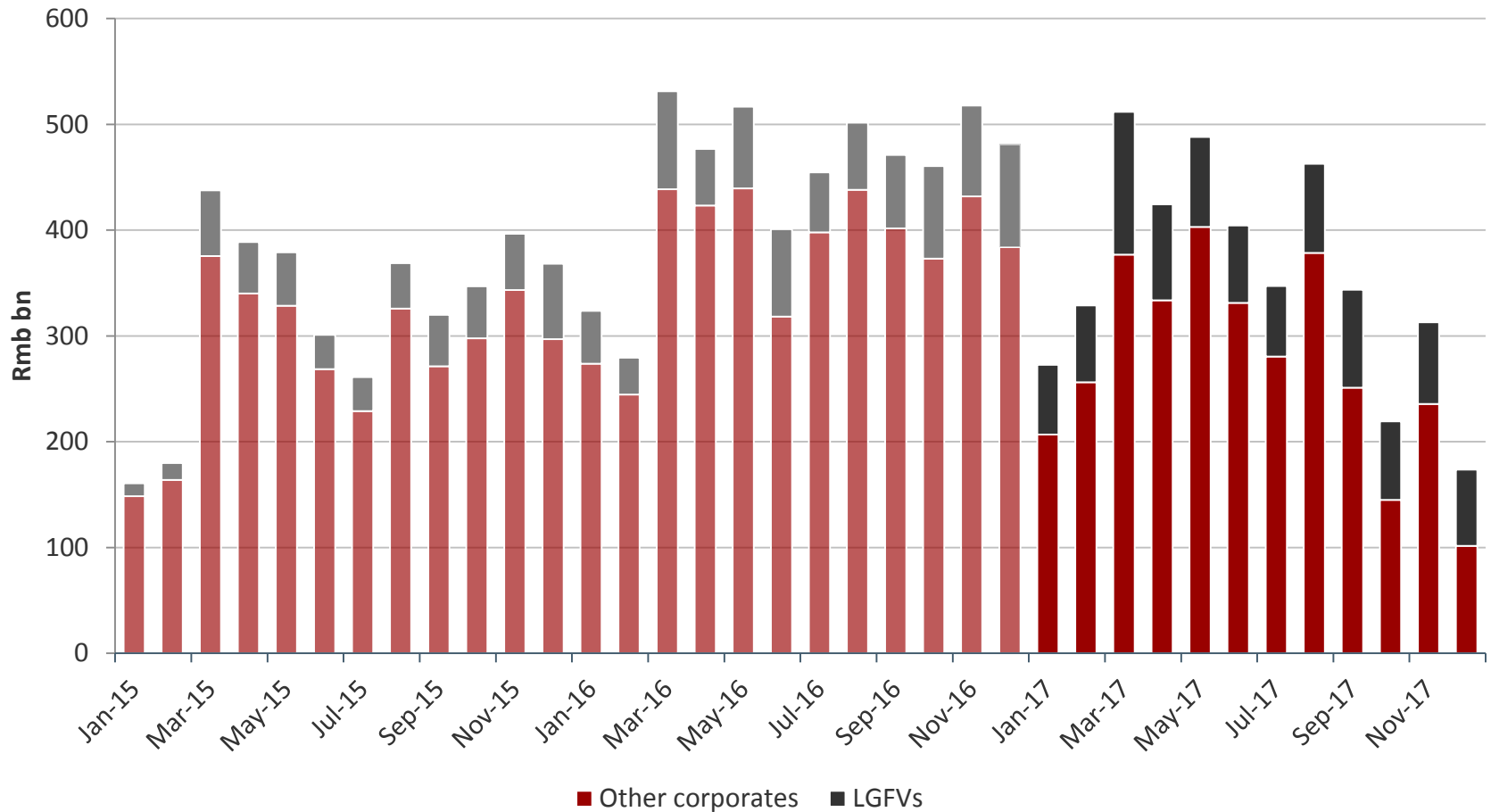


Source: Wind, NSBO China



# ...raising default risks

## Maturing bonds of non-financial corporates

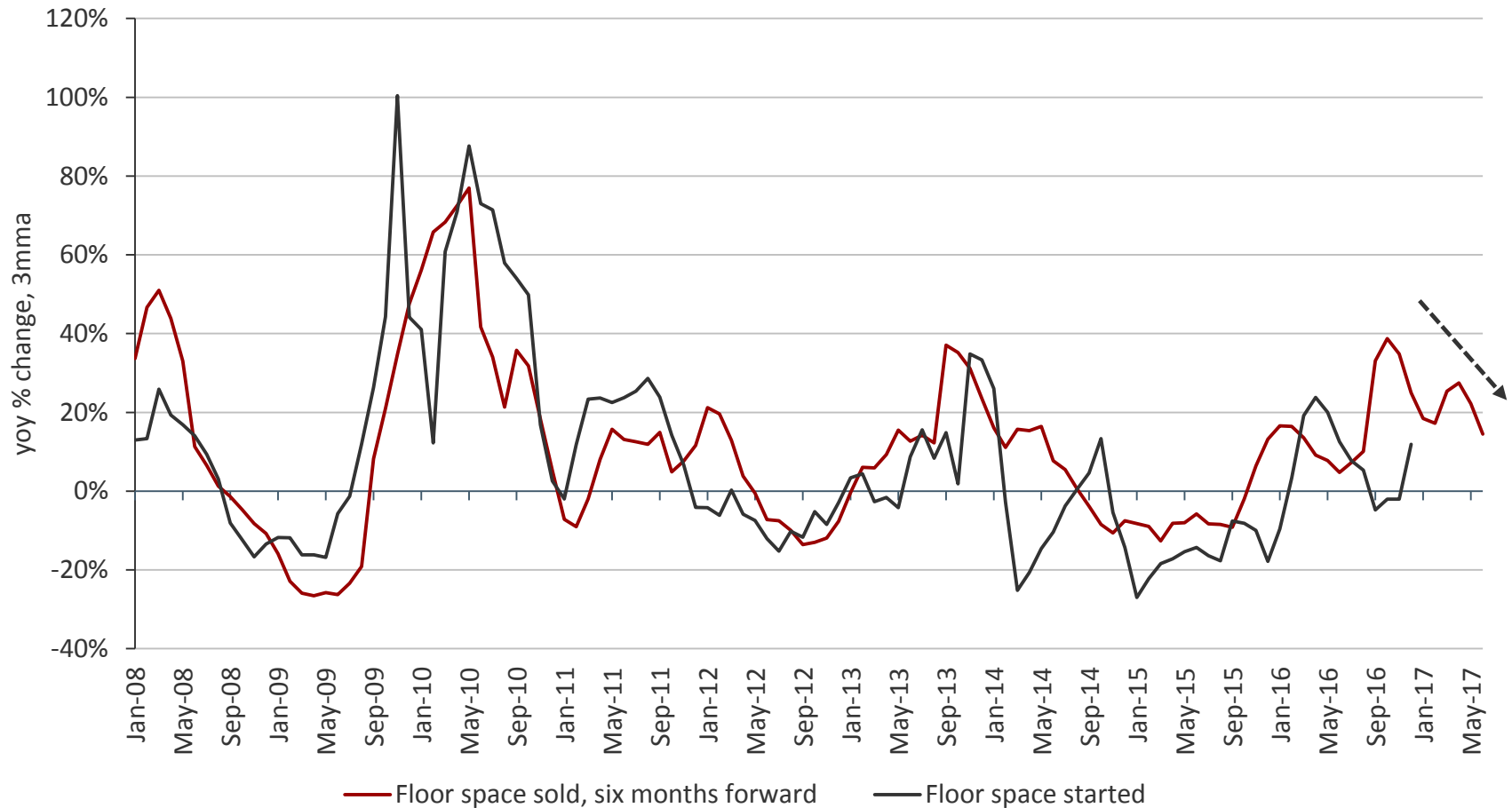


Source: Wind, NSBO China



# Construction sector recovery will roll off as home sales slow

## Home sales vs new construction starts



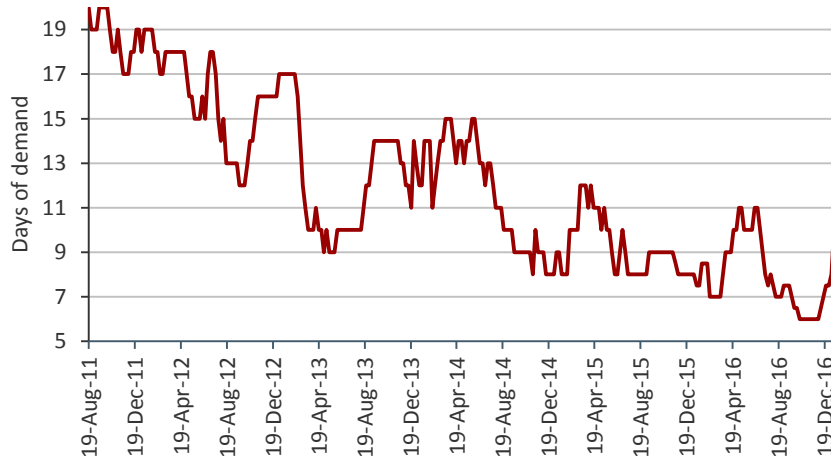
Source: NBS, NSBO China



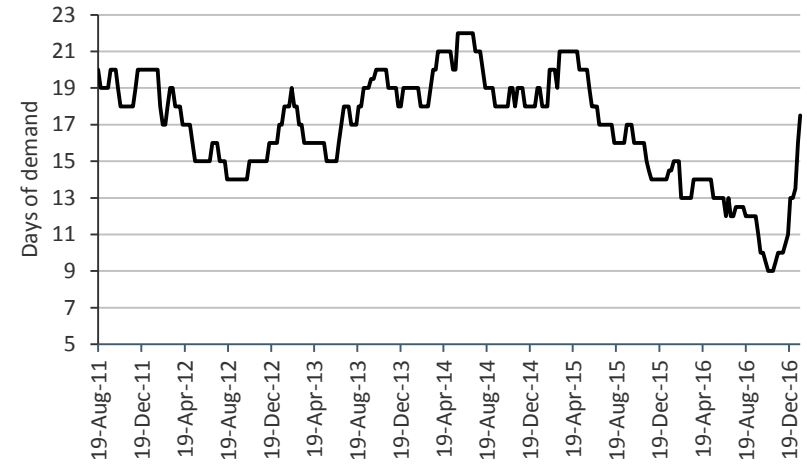


# But industry thinks things are going to continue to get better

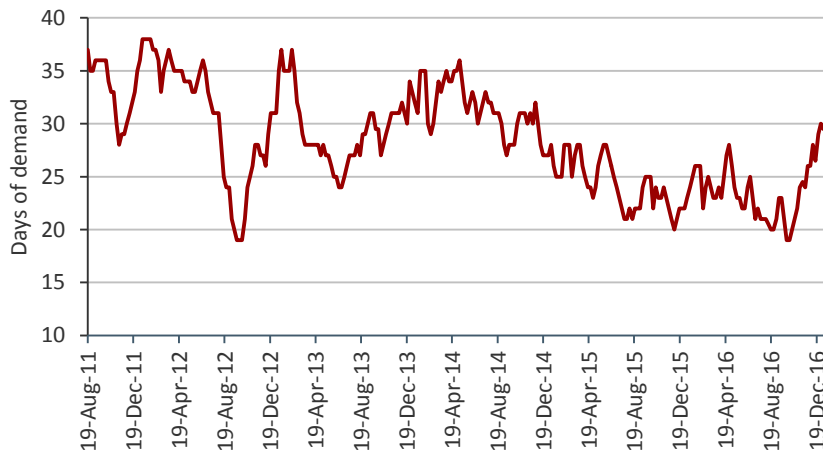
### Coke inventories at surveyed steel mills



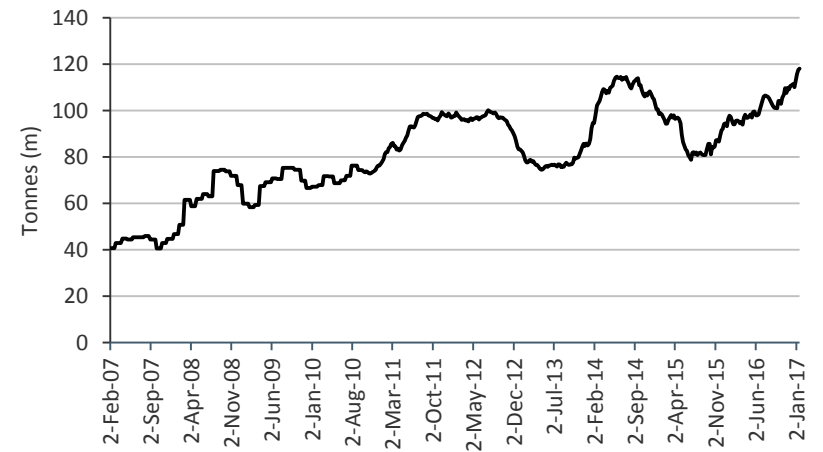
### Coking coal inventories at surveyed steel mills



### Imported iron ore inventories at surveyed steel mills



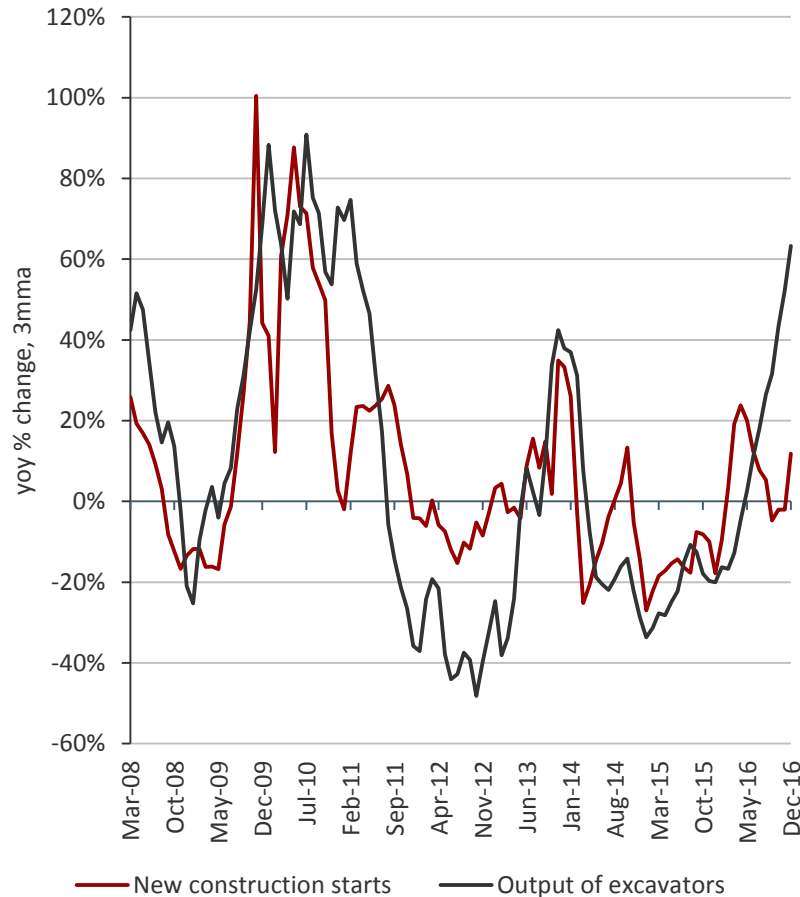
### Imported iron ore inventories at ports





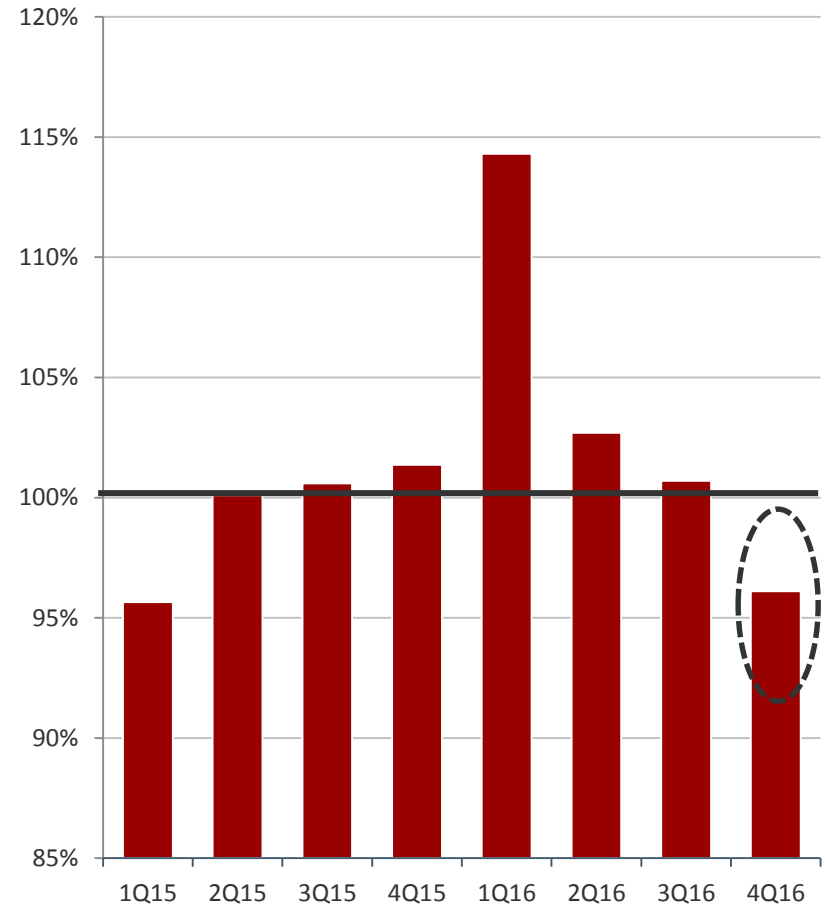
# Industry over-optimism is not confined to the steel sector

## New construction starts vs output of excavators



Source: NBS, Wind, NSBO China

## Proportion of excavators sold, YTD

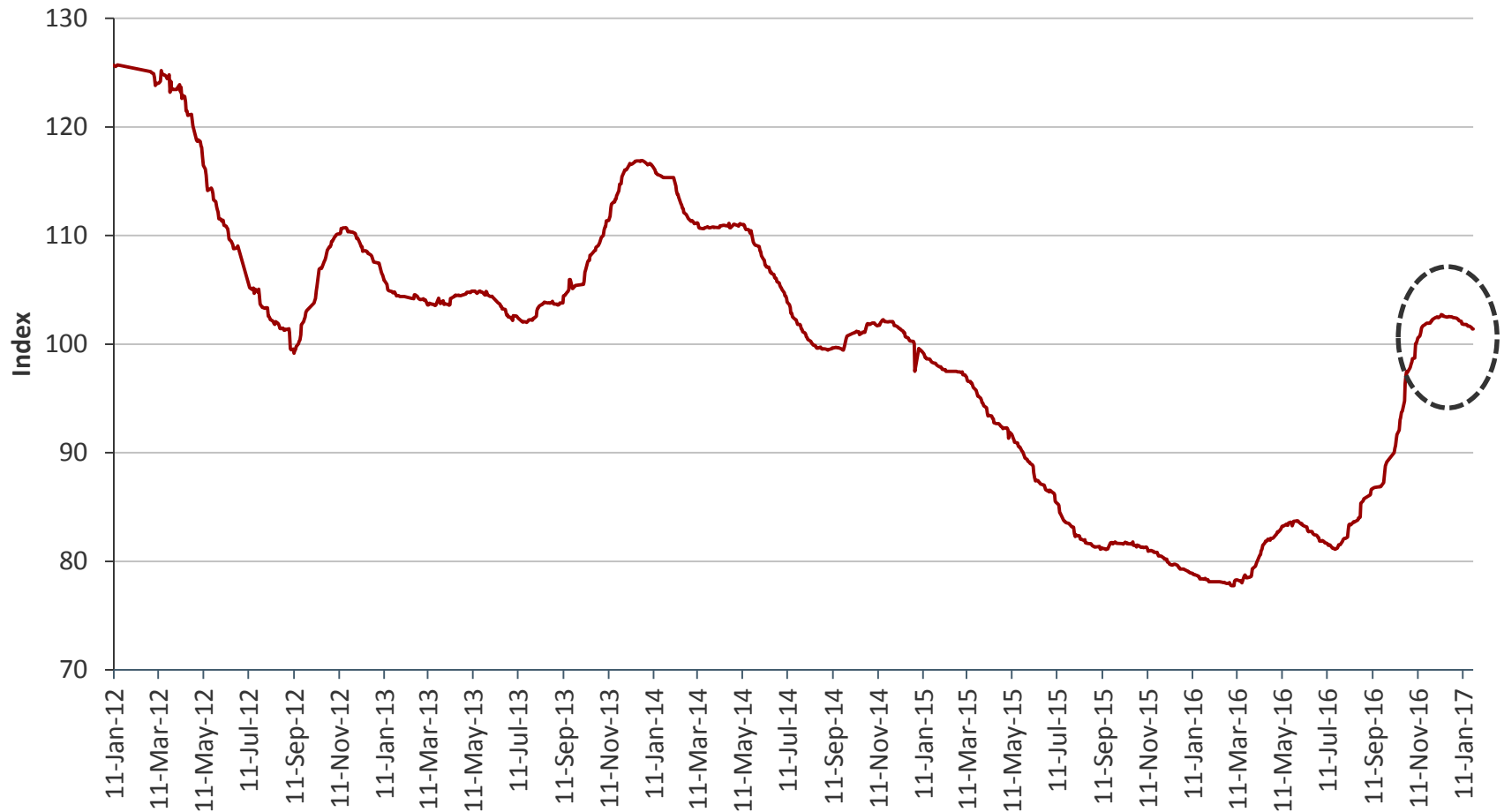


Source: Wind, NSBO China



# Materials less prone to hoarding have seen less of a price rise

## CC Cement.com national cement price index

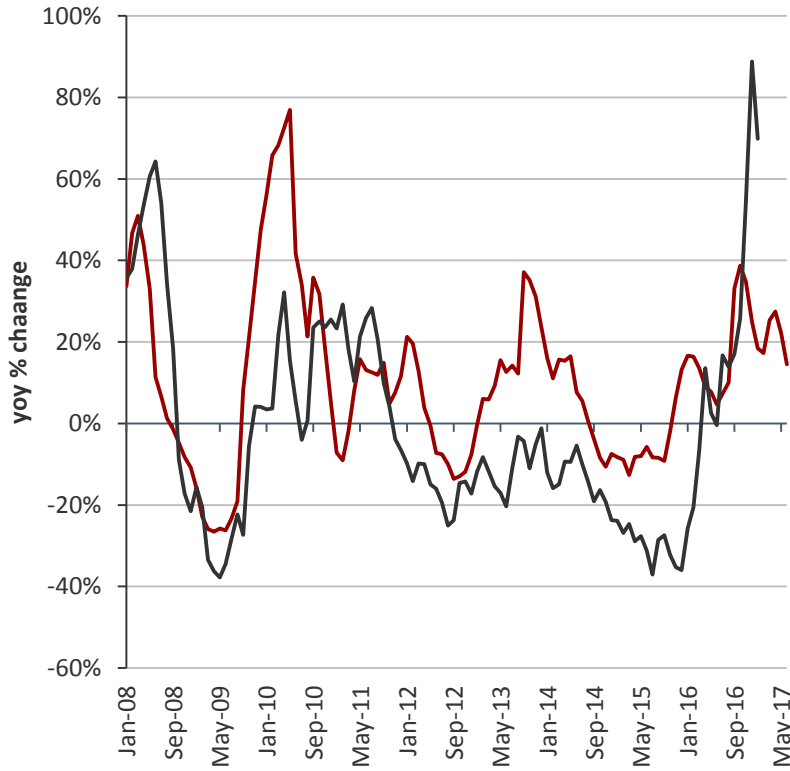


Source: Wind, NSBO China



# Market is not pricing in a slowdown as stimulus boost fades

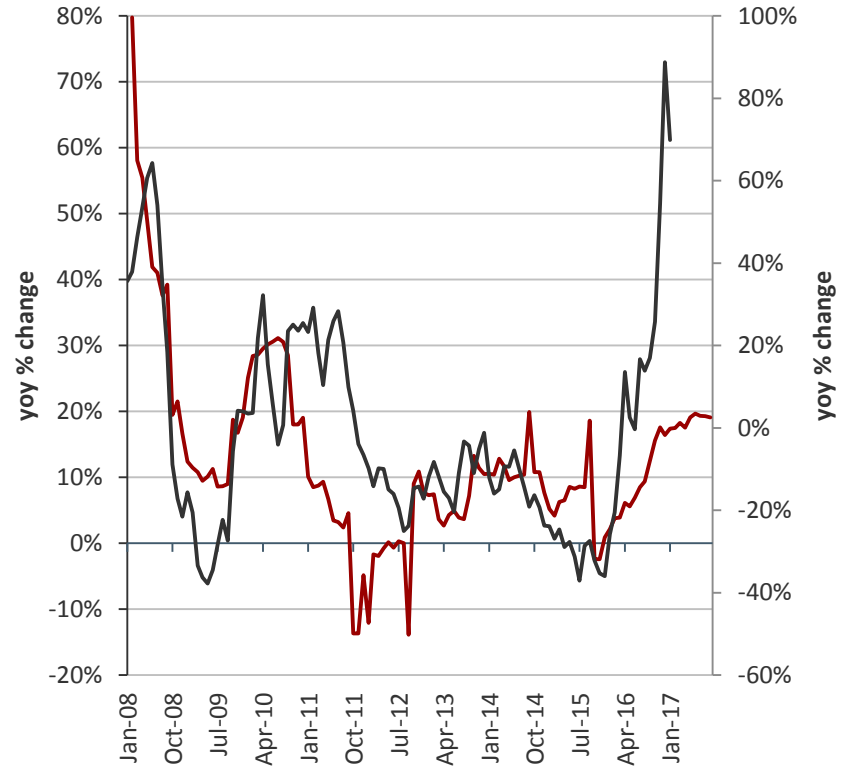
## Real estate sales vs steel prices



— Floor space sold, six months forward (YTD)  
 — Rebar prices

Source: NBS, Wind, NSBO China

## FAI projects vs steel prices



— Number of FAI projects under construction, nine months forward (YTD)  
 — Rebar prices (rhs)

Source: NBS, Wind, NSBO China



**Beijing, China**  
**B616, Nanxincang Business Tower,**  
**A22 Dongsishitiao,**  
**Beijing, 100007**  
**People's Republic of China**

**Tel: +86 10 5218 5160**  
**www.nsbo.com**

**中国,北京**  
**中国,北京东四十条甲22号**  
**南新仓商务大厦B616室,**  
**邮编100007**

**London, United Kingdom**  
**2<sup>nd</sup> Floor, 12 Groveland Court,**  
**London, EC4M 9EH**  
**United Kingdom**

**Tel: +44 (0)20 7024 4600,**  
**Fax: +44 (0)20 7024 4699**

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